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DE RUEHKT #0880/01 2660854
ZNR UUUUU ZZH
P 230854Z SEP 09
FM AMEMBASSY KATHMANDU
TO RUEHC/SECSTATE WASHDC PRIORITY 0789
INFO RUEHBJ/AMEMBASSY BEIJING 7135
RUEHBS/AMEMBASSY BRUSSELS 0275
RUEHKA/AMEMBASSY DHAKA 2792
RUEHLO/AMEMBASSY LONDON 6618
RUEHNE/AMEMBASSY NEW DELHI 3244
RUEHFR/AMEMBASSY PARIS 0183
RUEHCI/AMCONSUL KOLKATA 4769
RUCPDO/DEPT OF COMMERCE WASHINGTON DC
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RHHMUNA/HQ USPACOM HONOLULU HI//J2X/J2C/J2D/J2I//

UNCLAS SECTION 01 OF 02 KATHMANDU 000880

SENSITIVE
SIPDIS

E.O. 12958: N/A

TAGS: [EAIR](#) [ETRD](#) [PREL](#) [PTER](#) [NP](#)

SUBJECT: NEPAL: BOEING'S BID GETS A BOOST

REF: A. KATHMANDU 840

[B](#). KATHMANDU 529

[C](#). KATHMANDU 421

[D](#). KATHMANDU 202

Summary

[1](#). (U) Boeing's bid to supply a narrow-body aircraft to the Nepal Airlines Corporation (NAC) has been given a boost by the parliament's Public Accounts Committee, which at a September 18 hearing issued a directive to the state-run airline that should bring some balance to a decision-making process tilted in favor of Airbus. Spurred by an independent analysis that raised serious concerns about NAC's lack of a coherent business plan, the Committee ordered the airline to develop a detailed plan that addresses its long-term needs. Boeing has been urging NAC to do the same thing in the belief that from a long-range perspective its offer makes more financial sense.

Two Aircraft Sought, Only One Approved

[2](#). (U) As part of an effort to boost its international business, NAC earlier this year issued a request for proposals to supply one narrow-body and one wide-body aircraft. Five companies submitted proposals, but NAC decided to eliminate third-party suppliers, leaving Boeing and Airbus to compete for the sales. However, unlike Airbus, Boeing declined to bid on the wide-body aircraft because it believed such a purchase by NAC would be financially imprudent. Boeing's failure to bid on both aircraft caused it to fall out of favor with NAC. (Comment. Currently, the only long-range aircraft in NAC's fleet are two Boeing B-757s. End comment)

[3](#). (SBU) During a September 18 hearing, the Public Accounts Committee (PAC) ordered NAC not to move forward with the purchase of a wide-body aircraft until it submits a detailed rationale for the purchase. In making their demand, Committee members pointed to a study conducted for the state-run airline by the Center for Asia Pacific Aviation (CAPA), an aviation market analysis firm, which, like Boeing, questioned NAC's claim that it needed the wide-body aircraft for long-haul routes to Europe. CAPA said NAC's plans are "not sufficiently clear in outlining the need to launch these routes and their viability." No deadline was set for the NAC to submit its business plan.

[3](#). (SBU) PAC member Prakash Chandra Lohani told Emboff that the hearing, attended by Minister of Tourism and Civil Aviation Sarat Singh Bhandari, NAC Executive Chairman Sagat

Ratna Kansakar and Managing Director Kul Bahadur Limbu, was held in response to numerous recent media reports that the purchase of the wide-body aircraft was imminent. He said the findings of the CAPA report added to the Committee's sense of urgency. The lawmaker and former Finance Minister predicted that purchasing a wide-body aircraft without first developing a proper business plan would prove to be a financial "disaster" for NAC.

¶4. (U) Although the PAC halted the wide-body aircraft purchase, it gave the NAC the go-ahead to buy a narrow-body aircraft for operation on what the Committee deemed more financially feasible regional routes in South and Southeast Asia. Airbus has offered to provide the aircraft at a lower price, but Boeing officials maintain their narrow-body aircraft would be a better buy when operational costs over its life span are taken into account.

Timing of Purchase Also Questioned

¶5. (U) PAC members also questioned why NAC was moving ahead with the purchase of the aircraft before the long-standing power struggle between Executive Chairman Kansakar and Managing Director Limbu is resolved. Limbu, a veteran NAC pilot, was appointed managing director in January 2008. He was sacked 11 months later by the new Maoist-led government, which replaced him with Kansakar, a move Limbu appealed to the Supreme Court. In early June, the top court reinstated Limbu as managing director, but, about six weeks later, the Cabinet of the newly formed, UML-led government appointed Kansakar as NAC executive chairman, transferring all of

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Limbu's responsibilities to him. Limbu asked the Supreme Court to stay the Cabinet's decision until it heard his appeal. After initially issuing a stay order, the Supreme Court lifted the order on August 12, allowing Kansakar to reclaim ultimate authority at NAC, at least until the top court makes a final ruling on Limbu's appeal.

¶6. (U) Until the question of jurisdiction is resolved, Lohani stressed, the NAC Board of Directors will not be able to strictly follow its by-laws regarding the procurement of aircraft, as it has been ordered to do by the PAC.

NAC Management Criticized

¶7. (U) In its report on NAC's aircraft purchase plan, CAPA sharply criticized the state-run airline's management, particularly the apparent "naivete" that led it to believe that "the acquisition of new aircraft alone will solve all of NAC's problems." The report stressed, "New aircraft are not a panacea."

¶8. (U) During the PAC hearing, lawmakers called for reform in NAC management. Given the current "very poor management," Lohani questioned whether the NAC could guarantee proper utilization of the Rs. 10 billion (USD 130 million) that the Employees' Provident Fund is providing the airline to purchase the aircraft.

NAC Urged to Go with Single Company

¶9. (U) PAC members urged NAC to purchase new aircraft from a single company, either Boeing or Airbus. They cited the possible technical and financial burdens the airline would have to bear operating aircraft from different companies, which include maintaining distinct training programs and separate inventories of spare parts. NAC maintains a Rs. 1-billion parts inventory to service its two B-757s, according to Lohani. He requested that the NAC specify in its business plan what it intends to do with these aircraft and spare parts once new aircraft are purchased.

Comment

¶10. (SBU) While Post continues to hear that powerful forces in the Government of Nepal are promoting the Airbus bid, PAC's action boosts Boeing's efforts to sell a narrow-body aircraft to NAC by drawing much-needed attention to the airline's long-term needs, which Boeing believes are better met by its offer. The company's prospects would be further enhanced if the Supreme Court were to rule in favor of Limbu, who is seen by Boeing official as one of their few allies within NAC.

MOON